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2014 Federal Budget Commentary

"The Road to Balance: Creating Jobs and Opportunities"

February 11, 2014

Introduction

The Honourable Jim Flaherty, Minister of Finance, today tabled Canada's Economic Action Plan 2014, a budget which confirms that the Government is on track to return to balanced budgets in 2015, with new measures that will create jobs and opportunities in an uncertain global economy and no new taxes on Canadian families or businesses.

Budget 2014 focused on four key areas:

- **Connecting Canadians with available jobs** by helping them to acquire the skills that will get them hired or help them get better jobs;
- **Fostering job creation, innovation and trade** by keeping taxes low; reducing the tax compliance burden; and continuing to provide Canadian businesses and investors with the market access they need to succeed in the global economy;
- **Developing resources responsibly, conserving Canada's natural heritage and investing in infrastructure and transportation** by supporting the mining, forestry and agriculture sectors; investing in national parks and conservation initiatives, expanding tax support for clean energy; and making strategic investments in public infrastructure and transportation services; and
- **Supporting families and communities** by taking additional steps to protect Canadian consumers; keeping taxes low for families; and improving the safety of Canadians.

The following is a brief overview of the key tax measures.

Personal Tax Measures

There are no proposed changes to the marginal personal tax rates.

Adoption Expense Tax Credit

Budget 2014 proposes to increase the maximum amount of eligible expenses from $11,774 to $15,000 per child for 2014.

This maximum amount will be indexed to inflation for taxation years after 2014.

Medical Expense Tax Credit

Budget 2014 proposes that amounts paid for the design of an individualized therapy plan be eligible for the Medical Expense Tax Credit (METC) if the cost of the therapy itself would be eligible for the METC and the following conditions are met:

- An individualized therapy plan is required to access public funding for specialized therapy; or a medical doctor, occupational therapist, or psychologist prescribes an individualized therapy plan;
- The plan is designed for an individual with a severe and prolonged mental or physical impairment who is, because of the impairment, eligible for the Disability Tax Credit (DTC); and
- The amounts are paid to persons ordinarily engaged in the business of providing such services to unrelated individuals.

Budget 2014 also proposes to add to the list of expenditures eligible under the METC expenses for service animals specially trained to assist an individual in managing their severe diabetes.

These measures will apply to expenses incurred after 2013.

Search and Rescue Volunteers Tax Credit

Budget 2014 proposes a Search and Rescue Volunteers Tax Credit (SRVTC) to allow eligible ground, air and marine search and rescue volunteers to claim a 15 per cent non-refundable tax credit based on an amount of $3,000.

An eligible individual will be a search and rescue volunteer who performs at least 200 hours of volunteer search and rescue services in a taxation year for one or more ground, air or marine search and rescue organizations. Volunteer search and rescue service hours performed for a search and rescue organization will be ineligible if the individual also provides search and rescue services, otherwise than as a volunteer, to that organization.

Individuals cannot claim both the Volunteer Firefighters Tax Credit (VFTC) and the SRVTC. An individual who claims the VFTC or the SRVTC will be ineligible for the existing tax exemption of up to $1,000 for honoraria paid by a government, municipality or public authority to an emergency services volunteer.

This measure will apply to the 2014 and subsequent taxation years.

Extension of the Mineral Exploration Tax Credit for Flow-Through Share Investors

Budget 2014 proposes to extend eligibility for the Mineral Exploration Tax Credit for one year, to flow-through share agreements entered into on or before March 31, 2015.

Farming and Fishing Businesses

Budget 2014 proposes to adjust the rules on intergenerational transfers and the Lifetime Capital Gains Exemption (LCGE) to better accommodate taxpayers involved in a combination of farming and fishing.

In particular, Budget 2014 proposes to extend eligibility for the intergenerational rollover and the LCGE to property of an individual used principally in a combination of farming and fishing.

In addition, Budget 2014 proposes to extend eligibility for the intergenerational rollover and the LCGE to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used principally in either business, or is used principally in a combination of farming and fishing, the property will count towards the all or substantially all test.

This measure will apply to dispositions and transfers that occur in the 2014 and subsequent taxation years.

Tax Deferral for Farmers

Budget 2014 proposes to extend the deferral of up to 90 per cent of proceeds from the sale of livestock due to drought, flood or excess moisture conditions existing in prescribed regions in a given year, from inclusion in taxable income until the year following the sale or a later year if the conditions persist. The proposal will also apply to the disposition of bees and to all types of horses that are over 12 months of age that are kept for breeding.

This measure will apply to the 2014 and subsequent taxation years.

Amateur Athlete Trusts

Budget 2014 proposes to allow income that is contributed to an amateur athlete trust to qualify as earned income for the purpose of determining the RRSP contribution limit of the trust's beneficiary.

This measure will apply in respect of contributions made to amateur athlete trusts after 2013.

In addition, individuals who contributed to an amateur athlete trust before 2014 will be permitted to make an election to have income that was contributed to the trust in 2011, 2012 and 2013 also qualify as earned income. An individual's RRSP limit will be re-determined for each of these years based on the additional earned income created as a result of the election and any additional RRSP room will be added to the individual's RRSP contribution room for 2014.

An individual will be required to make the election in writing and submit it to the Canada Revenue Agency (CRA) on or before March 2, 2015.

Pension Transfer Limits

Budget 2014 proposes to allow the rule introduced in 2011 that applies in certain circumstances to allow the maximum transferable amount for a plan member who is leaving an underfunded RPP to be the same as if the RPP were fully funded to apply in additional situations. In particular, the rule will be available in respect of a commutation payment to a plan member who is leaving an RPP if that payment has been reduced due to plan underfunding and:

- Where the plan is an RPP other than an individual pension plan, the reduction in the estimated pension benefit that results in the reduced commutation payment is approved pursuant to the applicable pension benefits standards legislation; or
- Where the plan is an individual pension plan, the commutation payment to the plan member is the last payment made from the plan (i.e. the plan is being wound up).

The existing requirement that the application of this rule must be approved by the Minister of National Revenue will be maintained.

This measure will apply in respect of commutation payments made after 2012.

GST/HST Credit Administration

Budget 2014 proposes to eliminate the existing need for an individual to apply for the GST/HST Credit and to allow the CRA to automatically determine if an individual is eligible to receive the GST/HST Credit. A notice of determination will be sent to each individual who is eligible for the GST/HST Credit. In the case of eligible couples, the GST/HST Credit will be paid to the spouse or common-law partner whose tax return is assessed first.

This measure will apply in respect of income tax returns for the 2014 and subsequent taxation years.

Tax on Split Income

Budget 2014 proposes a targeted measure to maintain the integrity of the tax on split income. It is proposed that the definition "split income" in the *Income Tax Act (ITA)* be modified to include income that is, directly or indirectly, paid or allocated to a minor from a trust or partnership, if:

- The income is derived from a source that is a business or a rental property; and
- A person related to the minor:
  - Is actively engaged on a regular basis in the activities of the trust or partnership to earn income from any business or rental property; or
  - Has, in the case of a partnership, an interest in the partnership (whether held directly or through another partnership).

This measure will apply to the 2014 and subsequent taxation years.

Trust Tax Measures

Graduated Rate Taxation of Trusts and Estates

Budget 2014 proposes to apply flat top-rate taxation to grandfathered *inter vivos* trusts, trusts created by will and certain estates. Two exceptions to this treatment are proposed. First, graduated rates will apply for the first 36 months of an estate that arises on and as a consequence of an individual's death and that is a testamentary trust. Second, graduated rates will continue to be provided in respect of such trusts having as their beneficiaries individuals who are eligible for the federal DTC. More detail regarding the parameters of this exception will be released in the coming months.

This measure will apply to the 2016 and subsequent taxation years.

Other Changes to Taxation of Trusts and Estates

Budget 2014 proposes that testamentary trusts (other than estates for their first 36 months) and grandfathered *inter vivos* trusts will not benefit from special treatment under a number of related tax rules, in particular:

- An exemption from the income tax installment rules;
- An exemption from the requirement that trusts have a calendar year taxation year and fiscal periods that end in the calendar year in which the period began;
- The basic exemption in computing alternative minimum tax;
- Preferential treatment under Part XII.2 of the *Income Tax Act;*
- Classification as a personal trust without regard to the circumstances in which beneficial interests in the trust have been acquired;
- The ability to make investment tax credits available to a trust's beneficiaries; and
- A number of tax administration rules that otherwise apply only to ordinary individuals.

Testamentary trusts that do not already have a calendar year taxation year will have a deemed taxation year-end on December 31, 2015, or in the case of an estate for which that 36-month period ends after 2015, the day on which that period ends.

This measure will apply to the 2016 and subsequent taxation years.

Non-Resident Trusts

Budget 2014 proposes to eliminate the exemption from the deemed residence rules applicable where the contributors to the trust are individuals each of whom is resident in Canada for a total period of not more than 60 months, including related rules that apply to non-resident trusts.

This measure will apply in respect of trusts for taxation years:

- That end after 2014 if (i) at any time that is after 2013 and before Budget Day the 60-month exemption applies in respect of the trust, and (ii) no contributions are made to the trust on or after Budget Day and before 2015; or
- That end on or after Budget Day in any other case.

Charities and Non-Profit Organizations

Estate Donations

Individuals may claim a Charitable Donations Tax Credit (CDTC) for the year in which the donation is made or for any of the five following years. Where an individual makes a donation by will, the donation is treated for income tax purposes as having been made by the individual immediately before the individual's death.

Budget 2014 proposes to provide more flexibility in the tax treatment of charitable donations made in the context of a death that occurs after 2015. The Budget proposes to allow the trustee of the individual's estate flexibility to allocate the available donations among any of:

- The taxation year of the estate in which the donation is made;
- An earlier taxation year of the estate; or
- The last two taxation years of the individual.

A qualifying donation will be a donation effected by a transfer within the first 36 months after the individual's death, of property, to a qualified donee.

This measure will apply to the 2016 and subsequent taxation years.

Donations of Ecologically Sensitive Land

The Ecological Gifts Program provides a way for Canadians with ecologically sensitive land to contribute to the protection of Canada's environmental heritage and receive special tax assistance while doing so. Currently, as with other charitable donations, amounts not claimed for a year may be carried forward for up to five years. In addition, capital gains associated with the donation of ecologically sensitive lands are exempt from tax.

Budget 2014 proposes to extend to ten years the carry forward period for donations of ecologically sensitive land, or easements, covenants and servitudes on such land.

This measure will apply to donations made on or after Budget Day.

Donations of Certified Cultural Property

Gifts of certified cultural property are exempt from the rules which say the value of a gift of property is deemed to be no greater than its cost to the donor if, generally, the donor acquired the property as part of a tax shelter gifting arrangement or held the property for a short period. As a result, the donation of certified cultural property could be target for abuse by tax shelter promoters.

Budget 2014 proposes to remove, for certified cultural property acquired as part of a tax shelter gifting arrangement, the exemption from the rule that deems the value of a gift to be no greater than its costs to the donor. Other donations of certified cultural property will not be affected by this measure.

This measure will apply to donations made on or after Budget Day.

State Supporters of Terrorism

To prevent potential abuse of the charitable sector by foreign state supporters of terrorism, Budget 2014 proposes that where a charity or a Canadian amateur athletic association accepts a donation from a foreign state listed as a supporter of terrorism, the Minister of National Revenue may refuse to register the charity or may revoke its registration.

This measure will apply to donations accepted on or after Budget Day.

Consultation on Non-Profit Organizations

The income tax exemptions for NPOs have changed little since their introduction in 1917. Concerns have been raised that some organizations claiming the NPO tax exemption may be earning profits that are not incidental to carrying out the organization's non-profit purposes, making income available for the personal benefit of members or maintaining disproportionately large reserves. Current reporting requirements for NPOs are limited.

Budget 2014 announces the Government's intention to review whether the income tax exemption for NPOs remains properly targeted and whether sufficient transparency and accountability provisions are in place. This review will not extend to registered charities or registered Canadian amateur athletic associations.

Charities Administration

To reduce the administrative burden on charities, the Government will modernize the CRA's information technology systems to enable charities to apply for registration and file their annual information returns electronically.

Business Income Tax Measures

There are no proposed changes to corporate income tax rates or the small business deduction limit of $500,000 applicable to active income for Canadian Controlled Private Corporations (CCPC).

Canada Pension Plan (CPP) and Employment Insurance (EI) Premiums

The EI premium rate for employees has been frozen at the 2013 level of $1.88 per $100 of insurable earnings for 2014, and the government has committed to set the rate no higher than $1.88 for 2015 and 2016. The government proposes to implement a new EI premium rate setting process in 2017 and subsequent years.

There will be no change to the CPP contribution rates this year.

Remittance Thresholds for Employer Source Deductions

Employers are required to remit source deductions in respect of employees' income tax, CPP contributions and EI premiums. An employer is included in a particular category of remitter on the basis of the employer's total average monthly withholding amount in preceding calendar years in respect of these source deductions.

In order to reduce the tax compliance burden, Budget 2014 proposes to reduce the frequency of remittance of source deductions for employers.

In particular, Budget 2014 will:

- Increase the threshold level of average monthly withholdings at which employers are required to remit up to two times per month to $25,000 from $15,000; and
- Increase the threshold level of average monthly withholdings at which employers are required to remit up to four times per month to $100,000 from $50,000.

This measure will apply in respect of amounts to be withheld after 2014.

Tax Incentives for Clean Energy Generation

Under the capital cost allowance (CCA) regime in the income tax system, Class 43.2 of Schedule II to the Income Tax Regulations provides an accelerated CCA rate (50 per cent per year on a declining-balance basis) for investment in specified clean energy generation and energy conservation equipment.

Budget 2014 proposes to expand Class 43.2 to include water-current energy equipment and equipment used to gasify eligible waste fuel for use in a broader range of applications.

Water-Current Energy Equipment
Budget 2014 proposes to expand eligibility under Class 43.2 to include water-current energy equipment. Eligible property will include equipment used primarily for the purpose of generating electricity using the kinetic energy from flowing water (otherwise than by using physical barriers or flow diversion), including support structures, submerged cables, transmission equipment, and control, conditioning and battery storage equipment. Eligible property will not include buildings, distribution equipment or auxiliary electricity generating equipment.

Gasification Equipment
Budget 2014 proposes to expand Class 43.2 to include property used to gasify eligible waste fuel for other applications (e.g. to sell the producer gas for domestic or commercial use). Eligible property will include equipment used primarily to yield producer gas, including related piping, storage equipment, feeding equipment, ash-handling equipment and equipment to remove non-combustibles and contaminants from the producer gas. Eligible property will not include buildings or other structures, or heat rejection equipment.

Accelerated CCA will be available in respect of eligible property only if, at the time the property becomes first available for use, the requirements of all Canadian environmental laws, by-laws and regulations applicable in respect of the property have been met.

This measure will apply to property acquired on or after Budget Day that has not been used or acquired for use before that date.

Consultation on Eligible Capital Property

The eligible capital property (ECP) regime governs the tax treatment of certain expenditures of a capital nature (eligible capital expenditures) and receipts (eligible capital receipts) that are not otherwise accounted for as business revenues or expenses, or under the rules relating to capital property.

Budget 2014 announces a public consultation on a proposal to repeal the ECP regime, replace it with a new CCA class available to businesses and transfer taxpayers' existing CEC pools to the new CCA class.

Under the proposed rules, expenditures that are currently added to CEC (at a 75 per cent inclusion rate) would be included in the new CCA class at a 100 per cent inclusion rate. Because of this increased expenditure recognition, the new class would have a 5 per cent annual depreciation rate (instead of 7 per cent of 75 per cent of eligible capital expenditures). To retain the simplification objective, the existing CCA rules would generally apply, including rules relating to recapture, capital gains and depreciation (e.g. the "half-year rule").

The proposal is not intended to affect the application of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) in this area and transitional rules will apply.

The timing of the implementation of this proposal will be determined following the consultation.

Apprenticeship and Internships

Budget 2014 proposes to:
- Create the Canada Apprenticeship Loan program by expanding the Canada Student Loan Program to provide apprentices registered in Red Seal trades with access to over $100 million in interest-free loans each year;
- Provide an additional $40 million over four years to the Canadian Accelerator and Incubator Program to help entrepreneurs create new companies and realize the potential of their ideas through intensive mentoring;
- Dedicate $40 million towards supporting up to 3,000 internships in high-demand fields;
- Reallocate $15 million annually towards supporting up to 1,000 internships in small and medium sized enterprises;
- Provide $150,000 to increase mentorship among women entrepreneurs.

International Tax Measures

Budget 2014 continues to propose a number of measures to strengthen the capacity of the CRA to combat international tax evasion and aggressive tax avoidance.

Captive Insurance

Budget 2014 proposes to amend the existing anti-avoidance rule in the Foreign Accrual Property Income (FAPI) regime relating to the insurance of Canadian risks. In particular, it will be clarified that the rule applies where:
- Taking into consideration one or more agreements or arrangements entered into by the foreign affiliate, or by a person or partnership that does not deal at arm's length with the affiliate, the affiliate's risk of loss or opportunity for gain or profit in respect of one or more foreign risks can – or could if the affiliate had

entered into the agreements or arrangements directly – reasonably be considered to be determined by reference to the returns from one or more other risks (the tracked risks) that are insured by other parties; and
- At least 10 per cent of the tracked risks are Canadian risks.

Where the anti-avoidance rule applies, the affiliate's income from the insurance of the foreign risks and any income from a connected agreement or arrangement will be included in computing its FAPI.

This measure will apply to taxation years that begin on or after Budget Day.

Offshore Regulated Banks

Certain Canadian taxpayers that are not financial institutions purport to qualify for the regulated foreign financial institution exception (and thus avoid Canadian tax) by establishing foreign affiliates and electing to subject those affiliates to regulation under foreign banking and financial laws.

Budget 2014 proposes to address this concern by adding new conditions for qualifying under the regulated foreign financial institution exception. The exception will be available where the following conditions are satisfied:

- The relevant taxpayer (i.e. the Canadian taxpayer of which the foreign corporation is a foreign affiliate) is a regulated Canadian financial institution (defined for this purpose to mean a Schedule I bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities that is resident in Canada, and carries on a business the activities of which are supervised by the Superintendent of Financial Institutions or a similar provincial regulator), a subsidiary wholly-owned corporation of such an institution or a corporation that wholly owns such an institution (and is also subject to regulation); and
- More than 50 per cent of the total taxable capital employed in Canada (as defined in Part I.3 of the *Income Tax Act*) of the taxpayer and all related Canadian corporations is attributable to taxable capital employed in Canada of regulated Canadian financial institutions. Certain regulated Canadian financial institutions that have (or that are deemed under an applicable federal statute to have) equity of at least $2 billion will be deemed to satisfy this second condition. Subsidiary wholly-owned corporations of such institutions or corporations that wholly own such institutions will also be deemed to satisfy this condition.

This measure will apply to taxation years of taxpayers that begin after 2014. To ensure that the measure is appropriately targeted, stakeholders are invited to submit comments concerning its scope within 60 days after Budget Day.

Back-to-Back Loans

Some taxpayers have sought to avoid either or both the thin capitalization rules and Part XIII withholding tax through the use of so-called "back-to-back loan" arrangements. These arrangements generally involve interposing a third party between two related taxpayers in an attempt to avoid the application of rules that would apply if a loan were made, and interest paid on the loan, directly between the two taxpayers.

Budget 2014 proposes to address back-to-back loan arrangements by adding a specific anti-avoidance rule in respect of withholding tax on interest payments, and by amending the existing anti-avoidance provision in the thin capitalization rules.

This measure will apply (i) in respect of the thin capitalization rules, to taxation years that begin after 2014, and (ii) in respect of Part XIII withholding tax, to amounts paid or credited after 2014.

Consultation on Tax Planning by Multinational Enterprises

The Government is interested in obtaining views on how to ensure fairness among different categories of taxpayers and how to better protect the Canadian tax base, while maintaining an internationally competitive tax system that is attractive for investment.

Consultation on Treaty Shopping

Since Budget 2013, international developments have confirmed that many of Canada's main economic partners also have concerns about treaty shopping. In July 2013, the Organisation for Economic Co-operation and Development (OECD) issued an Action Plan to address the issue of aggressive tax planning by multinational enterprises, referred to as "base erosion and profit shifting" (BEPS). One of the issues identified for action is the abuse of tax treaties.

The Government invites comments from interested parties on a proposed rule to prevent treaty shopping. The rule would address arrangements identified as an improper use of Canada's tax treaties in the consultation paper and, therefore, protect the integrity of Canada's tax treaties. The rule would use a general approach focused on avoidance transactions and, in order to provide more certainty and predictability for taxpayers, building on comments received on the 2013 consultation paper, the rule would contain specific provisions setting out the ambit of its application.

Update on the Automatic Exchange of Information for Tax Purposes

In 2010, the U.S. enacted provisions known as the Foreign Account Tax Compliance Act (FATCA). FATCA would require non-U.S. financial institutions to identify accounts held by U.S. persons, which include U.S. citizens living abroad, and report to the U.S. Internal Revenue Service (IRS) information in respect of these accounts. FATCA has raised a number of concerns in Canada – among both U.S. citizens living in Canada and Canadian financial institutions. Without an intergovernmental agreement between Canada and the U.S., Canadian financial institutions and U.S. persons holding financial accounts in Canada would be required to comply with FATCA regardless, starting July 1, 2014 as per the FATCA legislation enacted by the U.S. unilaterally.

In response to these concerns, the Government of Canada negotiated an intergovernmental agreement with the U.S. that contains exemptions and other relief. Under the approach in the Canada-U.S. agreement, which was signed on February 5, 2014, Canadian financial institutions will report to the Canada Revenue Agency (CRA) information in respect of U.S. persons that will be transmitted by the CRA to the IRS under the Canada-U.S. tax treaty and be subject to its confidentiality safeguards. A variety of registered accounts (including Registered Retirement Savings Plans (RRSP), Registered Retirement Income Funds (RRIF), Registered Education Savings Plans (RESP), Registered Disability Savings Plans (RDSP), and Tax-Free Savings Accounts (TFSA)) and smaller deposit-taking institutions, such as credit unions, with assets of less than $175 million will be exempt from reporting. Meanwhile, the CRA will receive information from the U.S. in respect of Canadian resident taxpayers that hold accounts at U.S. financial institutions, which will assist Canadian tax authorities in administering and enforcing compliance with Canadian tax laws.

This new reporting regime will come into effect starting in July 2014, with Canada and the U.S. beginning to receive enhanced tax information from each other in 2015. See our February 2014 Tax Flash for more details.

Update on Tax Treaties and Tax Information Exchange Agreements

The Government continues to actively negotiate and conclude tax treaties to reduce tax barriers to international trade and investment, combat international tax evasion and aggressive tax avoidance, strengthen Canada's bilateral economic relationships, and create enhanced opportunities for Canadian businesses abroad.

Canada now has 92 tax treaties in force, 3 tax treaties signed but not yet in force, and 8 tax treaties and protocols under negotiation.

Sales and Excise Tax Measures

Improving the Application of the GST/HST to the Health Care Sector

Budget 2014 proposes three changes to improve the application of the GST/HST to certain health-related services and medical and assistive devices to reflect the evolving nature of the health care sector.

Designing Training for Individuals with a Disorder or Disability

Budget 2014 proposes to expand the exemption for training that is specifically designed to assist individuals with a disorder or disability to also exempt the services of designing such training. The exemption will apply to the initial development and design of the plan and any subsequent adjustments.

Acupuncturists' and Naturopathic Doctor's Services

The professional services of acupuncturists and naturopathic doctors are now regulated as a health profession in at least five provinces. Accordingly, Budget 2014 proposes that acupuncturists and naturopathic doctors be added to the list of health care practitioners whose professional services rendered to individuals are exempt from the GST/HST.

Eyewear Specifically Designed to Electronically Enhance the Vision of Individuals with Vision Impairment

Budget 2014 proposes to add eyewear specifically designed to treat or correct a defect of vision by electronic means, if supplied on the written order of a physician or optometrist for use by a consumer named in the order, to the list of GST/HST zero-rated medical and assistive devices.

These measures will apply to supplies made after Budget Day.

GST/HST Election for Closely Related Persons

The group relief election, generally referred to as the "nil consideration election" is available allowing registrants that are resident in Canada, engaged exclusively in commercial activities and members of a closely related group to not account for tax on certain transactions between them. Currently, the election may not be available to a new member of the group at the time of initial acquisition of assets from another member of that group if, for example, the new member does not have other property before making the election.

Budget 2014 proposes to extend, effective January 1, 2015, the availability of the group relief to new members that have not yet acquired any property, provided that the new members continue as going concerns engaged exclusively in commercial activities.

Budget 2014 proposes a filing requirement in relation to the group relief election be introduced. Parties to the new election will be required to file that election in a prescribed manner with the Canada Revenue Agency, by the first date on which any of the parties to the election is required to file a return for the period in which the election becomes effective.

Budget 2014 proposes that parties to an existing or new group relief election be subject to a joint and several liability provision with respect to the GST/HST liability that may arise in relation to supplies made between them on or after January 1, 2015.

Joint Ventures

Currently, the joint venture election is available only if the activities of the joint venture are prescribed by regulation as eligible activities for purposes of the election. In order to allow more commercial joint venture activities and participants access to the GST/HST simplification benefits available under the joint venture election, the Government intends to propose new joint venture election measures, as well as complementary anti-avoidance measures, that will allow the participants in a joint venture to make the joint venture election as long as the activities of the joint venture are exclusively commercial and the participants are engaged exclusively in commercial activities.

The Government will release draft legislative proposals later in the year and invite stakeholders to provide their views.

Strengthening Compliance with GST/HST Registration

During the course of their enforcement programs, Canada Revenue Agency (CRA) officials may identify businesses that should be registered. In an effort to strengthen GST/HST compliance and help the CRA combat the underground economy, Budget 2014 proposes that the Minister of National Revenue be given the discretionary authority to register and assign a GST/HST registration number where a person fails to comply with the requirement to register, even after having been notified of the requirement to register by the CRA.

This measure will apply the Royal Assent to the enacting legislation.

Tobacco Taxation

Budget 2014 proposes a number of changes to restore the effectiveness of the excise duty on tobacco products.

Rate of Excise Duty on Cigarettes

The effective rate of excise duty on cigarettes has not changed since 2002. Budget 2014 proposes to adjust the rate of excise duty on cigarettes to account for inflation since 2002. Specifically, this adjustment will increase the rate of excise duty on cigarettes from $0.425 to $0.52575 for each five cigarettes or fraction thereof. Budget 2014 proposes a corresponding increase in the rate of excise duty on tobacco sticks from $0.085 to $0.10515 per stick, and on manufactured tobacco from $5.3125 to $6.57188 per 50 grams or fraction thereof.

These rate changes will be effective after Budget Day.

Excise Duty Treatment of Tobacco Products in Duty Free Markets

The "duty free" rate on tobacco products available through duty free markets is lower than the corresponding excise duty rates for the same tobacco products for sale in the domestic markets. Budget 2014 proposes to increase the "duty free" rate for cigarettes to $0.52575 for each five cigarettes or fraction thereof, in the case of Canadian-manufactured cigarettes, or $0.10515 per cigarette, in the case of imported cigarettes, for tobacco sticks to $0.10515 per tobacco stick, and for manufactured tobacco to $6.57188 per 50 grams or fraction thereof. Going forward, changes to these "duty free" rates will be legislatively linked to changes in the excise duty. These rate changes will be effective after Budget Day.

Indexing Tobacco Taxes to the Consumer Price Index
Going forward, to ensure that tobacco taxes retain their real value in the future, the excise duty rates on tobacco products, including the "duty free" rates, will be indexed to the Consumer Price Index and automatically adjusted accordingly every five years. The first inflationary rate adjustment will be effective December 1, 2019.

Inventory Tax on Cigarettes
To ensure that the rate changes are applied in a consistent manner to all cigarettes, it is proposed that inventories of cigarettes held by manufacturers, importers, wholesalers and retailers at the end of Budget Day be subject to a per cigarette tax of 2.015 cents. This inventory tax will not apply to taxpayers holding 30,000 or fewer cigarettes (equivalent to 150 cartons of cigarettes) at the end of the day on Budget Day, and will not apply to cigarettes held in vending machines.

Standardizing Sanctions Related to False Statements in Excise Tax Returns

Currently, unlike other federal tax legislation, the excise tax legislation for fuels, fuel-inefficient vehicles and automobile air-conditioners (i.e. the non-Goods and Services Tax/ Harmonized Sales Tax (GST/HST) portion of the *Excise Tax Act*) does not contain an administrative monetary penalty for false statements. In addition, the related criminal offence for this purpose does not provide for the possibility of prosecution by indictment.

Budget 2014 proposes to add a new administrative monetary penalty, and to amend the existing criminal offence, for the making of false statements or omissions in an excise tax return and related offences under the non-GST/HST portion of the *Excise Tax Act.* These provisions will be consistent with the GST/HST portion of the *Excise Tax Act.*

These measures will apply to excise tax returns filed after the day of Royal Assent to the enacting legislation.

Other Tax Measures

Customs Tariff Treatment of the Governor General

Building on tax amendments undertaken in the past two years concerning the Governor General, the *Customs Tariff* will be amended to make the Governor General subject to the same tariff rules as other Government office holders.

Supporting Offshore Oil and Gas Development

Mobile offshore drilling units (MODUs) used in oil and gas exploration and development can be temporarily imported into Canada on a duty free basis under the *Mobile Offshore Drilling Units Remission Order.* This Remission Order was extended in 2009 for another five years, and is set to expire in May 2014. Budget 2014 proposes to eliminate the 20 per cent rate of duty on imported MODUs. This measure will eliminate the disincentive to exploration leading to oil and gas discoveries in offshore Atlantic and Artic regions.

This tariff elimination will be effective in respect of goods imported into Canada on or after May 5, 2014.